

Payments Transformation

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PART ONE

In this Issue

3rd Party Payment Licensing –
What You Need to Know

History of Payments Regulation

Continued Government Support

What do the Licenses
Permit Holders to do?



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3rd Party Payment Licensing – What You Need to Know

Cash is the most popular means of payment in China, but this has not prevented several varieties of alternative payment mechanisms being introduced since 2001, including prepaid cards issued by retail stores, top-up cards from telecommunications companies, and some credit cards. While cash remains the most popular means of exchange in China, we are seeing a rapid shift towards electronic payment methods.

The increased proliferation of information technology in China, from laptops to smartphones, and the rapid development and adoption of Internet businesses, is gradually driving commerce onto new platforms. This trend is placing a burden on existing financial institutions where some are struggling to handle the increased payment volumes being requested of them. This situation has allowed a new breed of non-bank payment providers to emerge and quickly flourish to fill the gap in the market.

History of Payments Regulation

For many years, these non-bank 3rd party payment providers have been operating in a grey area without regulation or government oversight. As more Chinese citizens have adopted these services, the Chinese government has decided to leverage these innovative advances to help build up the financial infrastructure system as well as start to regulate their activities.

The Chinese government's focus on payments was first mentioned in the Formulation of the 11th Five-Year Guidelines (2006-2010) for National Economic and Social Development (the Guidelines). This specifically mentioned for the first time that efforts would be directed to grow the service industries. In the Guidelines, three of the activities listed had a direct impact on

the payments market, namely (1) developing the financial services standards, (2) actively promoting the use of information services; and (3) regulating and developing commercial and professional services.

Recognising that these 3rd party payment providers (such as prepaid card issuers, virtual card issuers and mobile payment providers) play an important role in the way that payments in China will develop, the People's Bank of China (PBOC) started to study, draft and gather feedback from the industry. Several operating regulations and supplements were published in 2007 and 2009.

In 2010, the PBOC finally launched a regulation that requires all non-bank payment service providers to obtain a license in

order to conduct 3rd party payment transactions in China. The non-bank payment service regulations established detailed provisions on the scope of the third party payment service, the qualifications and requirements for operating a business, and provided a degree of consumer protection.

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According to the non-bank payment service regulations, effective 1 September, 2010: 'Non-bank institutions must obtain a Service Provision License from the PBOC before engaging in payment and settlement services within the territory of China. All non-bank third-party payment service institutions in operation prior to the implementation of the Payment Service Regulations must obtain the License within a year of the announcement.'

KPMG - Supporting the Change

As part of our commitment to the development of the Payments industry, we will be providing the 'Payments Transformation Quarterly Business Update'. If you would like to continue receive these updates or have any questions regarding the information provided, please contact:

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Continued Government Support

In the 12th Five-Year Plan, the Chinese government continued to emphasise the role of the payments sector as a key development area for the China Services Sector. In addition, they announced that the government will drive the development of a national mobile payment standard to promote the development and implementation of mobile applications for mobile payments, transport ticketing and payment of public utilities and shopping. When complemented with other technology initiatives to grow the Cloud Computing environment in China, it is anticipated that these efforts will help the long-term development of China's online and digital payments market.

What do the Licenses Permit Holders to do?

When first announced in 2010, more than 260 companies initially applied for payment licenses. As of 27 June 2012, four rounds of licenses have been issued and a total of 196 companies have managed to obtain a license.

The licenses issued to date allow companies to engage in specified payment and settlement services within the territory of China based on six major categories of service:

- Internet (online) payments
- Mobile payments
- Prepaid card issuing and acquiring
- Bank card acquiring

- Foreign Currency Exchange
- Digital TV payments.

The Digital TV payments category has only appeared in the last round of licenses being provided and has been added by the government in recognition of the growing market of video streaming, cable channels and TV shopping.

So how can licenses be obtained, who already is playing in the market and what criteria need to be met?

These questions will be answered in Part 2 of our look at the 3rd Party Payments markets in China.